

Message Text

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INFO AMCONSUL HONG KONG

C O N F I D E N T I A L PEKING 0651

E.O. 11652: GDS

TAGS: ETR, AFSP, CH

SUBJ: USLO STAFFING - COMMERCE PROPOSAL

REF: STATE 142885 (NOTAL)

SUMMARY. THE COMMERCE PROPOSAL FOR A LARGE EXPANSION OF U.S. COMMERCIAL OPERATIONS IN PEKING IN FY 1975, BASED ON OUR EXPERIENCE SO FAR, WOULD BE EXCESSIVE AND PROBABLY NOT COST EFFECTIVE. THE TRADE DEVELOPMENT CENTER CONCEPT DOES NOT FIT PRC CONDITIONS AND REFLECTS SOME MISUNDERSTANDING OF HOW BUSINESS IS DONE IN PEKING. THE PROPOSAL ALSO POSES NUMEROUS ADMINISTRATIVE PROBLEMS THAT MAY BE IMPOSSIBLE TO SOLVE WITHOUT AN EVEN GREATER DEGREE OF COOPERATION THAN WE AND OTHER MISSIONS HERE HAVE RECEIVED FROM THE PRC SO FAR. WE BELIEVE THAT USLO CAN BEST SERVE THE INTERESTS OF THE U.S. HERE IF WE KEEP OUR PRESENCE TO MODEST PROPORTIONS; THIS, OF COURSE, DOES NOT RULE OUT A GRADUAL EXPANSION OF OUR STAFF WHEN CIRCUMSTANCES REQUIRE. END SUMMARY.

1. REQUIREMENTS FOR COMMERCIAL SUPPORT OVERSTATED -
DESPITE THE CURRENT BOOM IN SINO-U.S. TRADE FIGURES, THE OUTLOOK DOES NOT YET JUSTIFY THE INVESTMENT IN MONEY AND PERSONNEL CALLED FOR IN THE COMMERCE PROPOSAL. ALTHOUGH THE TRADE IS LARGE, IT INCLUDES SEVERAL LARGE COMPONENTS WHICH HAVE BEEN
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LITTLE INFLUENCED BY USG TRADE PROMOTION ACTIVITIES. FOR

EXAMPLE, MAJOR AGRICULTURAL COMMODITY DEALS HAVE BEEN HANDLED AS NORMAL INTERNATIONAL MARKETING TRANSACTIONS WITH LITTLE ASSISTANCE FROM USG. IN THE CASE OF THE BOEING SALE, THE ONLY SIGNIFICANT USG ROLE WAS IN REDUCING EXCON REGULATIONS, WHICH MADE THE SALE POSSIBLE. IT APPEARS TO US THAT A CONSIDERABLE AMOUNT OF US-CHINA TRADE CAN CONTINUE TO BE ACCOMPLISHED WITHOUT A SIGNIFICANT INCREASE OF U.S. OFFICIAL PRESENCE IN PEKING.

2. IT IS NONETHELESS TRUE THAT USLO COMMERCIAL OFFICERS CAN PLAY AN IMPORTANT ROLE IN PROMOTING FURTHER SINO-US TRADE. THIS IS ALREADY BEING DONE BY ADVISING AMERICAN BUSINESSMEN, BY IDENTIFYING TRADE OPPORTUNITIES, BY FACILITATING SPECIFIC TRANSACTIONS (E.G., THE M.W. KELLOGG PLANT SALES), AND BY TAKING THE INITIATIVE IN DIRECT DEALINGS WITH THE PRC STATE TRADING CORPORATIONS. BASED ON OUR EXPERIENCE SO FAR, AND ON WHAT WE CAN LEARN FROM THE EXPERIENCE OF OUR BRITISH, CANADIAN AND OTHER COLLEAGUES IN PEKING, WE BELIEVE THE MOST EFFECTIVE APPROACH TO PROMOTING TRADE WITH THE PRC IS FIRST, TO ENCOURAGE US FIRMS TO CONTACT THE STATE TRADING CORPORATIONS DIRECTLY AND THEN, IN APPROPRIATE SITUATIONS, FOR USLO OFFICERS TO FOLLOW UP THESE INITIATIVES IN MEETINGS AND CORRESPONDENCE WITH THE CORPORATIONS CONCERNED. SUCH ACTIONS BY USLO MUST OF COURSE BE SELECTIVE AND CONCENTRATED ON AREAS WHERE THE POTENTIAL IS GREATEST AND WHERE WE CAN HOPE TO OBTAIN THE BEST RESULTS. THUS FAR, OUR TWO COMMERCIAL/ECONOMIC OFFICERS ARE QUITE CAPABLE OF HANDLING THIS WORK-LOAD AND WE ARE NOT CONVINCED THAT THE SITUATION WILL CHANGE SUBSTANTIALLY OVER THE NEXT TWO YEARS. WHILE WE MIGHT SEE THE NEED FOR AN ADDITIONAL COMMERCIAL OFFICER IN PEKING BY FY 1975, WE DOUBT THAT THE RADICAL EXPANSION PROPOSED BY COMMERCE IS NECESSARY.

3. INAPPLICABILITY OF TRADE DEVELOPMENT CENTER CONCEPT IN PRC - THE TRADE DEVELOPMENT CENTER (TDC) CONCEPT, AS DESCRIBED IN PARAGRAPH THREE REFTEL, DOES NOT FIT PRC CONDITIONS. THIS IS NOT A POST THROUGH WHICH BUSINESSMEN FREELY TRAVEL, NOR IS IT A LOCATION WHERE THEY HAVE PERMANENT OFFICES (SEE PEKING 0608). THEY COME TO PEKING WHEN INVITED, WHICH IS NORMALLY WHEN THERE ARE SPECIFIC BUSINESS NEGOTIATIONS TO BE CONDUCTED. THEY OFTEN WANT USG HELP AND ADVICE AND THIS IS BEING PROVIDED BY USLO COMMERCIAL OFFICERS, BUT THEY DO NOT

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NEED AN OPERATING BASE. INDEED, THEY OFTEN PREFER TO BE ON THEIR OWN UNTIL THEY FACE A PROBLEM OR CONCLUDE A DEAL. NOR DO THEY NEED A MARKET INFORMATION CENTER. MARKETING INFORMATION ON CHINA IS BEST COLLECTED FROM NUMEROUS SOURCES MOSTLY OUTSIDE THE PRC, AND IS BEST MADE AVAILABLE TO US BUSINESSMEN IN THE U.S. OR AT OTHER OVERSEAS LOCATIONS.

4. AS FOR THE CHINESE, THEY TRADITIONALLY OBTAIN INFORMATION ON

FOREIGN PRODUCTS AND SERVICES THROUGH DIRECT CONTACTS WITH FOREIGN CORPORATIONS. WE DO NOT BELIEVE THEY WOULD MAKE REGULAR USE OF A PERMANENT FOREIGN INSTALLATION WITH A CONTINUING PROGRAM AS ENVISIONED FOR THE TDC IN REFTEL, NOR DO WE THINK THEY WOULD CONSENT TO ITS ESTABLISHMENT IF APPROACHED. WE THINK US BUSINESS INTERESTS WOULD BETTER BE SERVED BY INVESTING IN CAREFULLY PREPARED AND WELL-STAGED EXHIBITIONS IN CHINA. SUCH EXHIBITIONS WOULD UNDOUBTEDLY ATTRACT A GREAT NUMBER OF CHINESE OFFICIALS AND END-USERS, WOULD ENABLE A LARGE NUMBER OF US BUSINESSMEN TO VISIT PEKING FOR FACE-TO-FACE MEETINGS WITH CHINESE COUNTERPARTS, AND GENERALLY SHOULD HAVE A MORE FAVORABLE IMPACT ON TRADE THAN THE TDC CONCEPT.

5. ADMINISTRATIVE PROBLEMS - THE PROPOSED RAPID EXPANSION OF COMMERCIAL PERSONNEL, AND THE TDC CONCEPT IN PARTICULAR, POSES FORMIDABLE ADMINISTRATIVE PROBLEMS THAT COULD ONLY BE SOLVED WITH VERY CLOSE COOPERATION FROM THE PRC. WE HAVE NO ROOM IN OUR PRESENT BUILDING FOR EXPANSION OF THE TYPE PROPOSED, AND OTHER OFFICE SPACE IN TOWN IS EXTREMELY TIGHT. LOCAL EMPLOYEES CAN BE HIRED ONLY THROUGH THE DIPLOMATIC SERVICES BUREAU AND THEY ARE IN SHORT SUPPLY. THE USLO COMMERCIAL/ECONOMIC UNIT AT PRESENT MUST SHARE USLO'S SMALL LOCAL STAFF WITH OTHER SECTIONS OF THE OFFICE. HOUSING FOR FOREIGN REPRESENTATIVES IS ALSO SCARCE AND AN END TO THE SHORTAGE IS NOT FORESEEN. EVEN IF CONSIDERED DESIRABLE, THE TDC WOULD REQUIRE CAREFUL NEGOTIATIONS WITH THE PRC AND, AS INDICATED ABOVE, WE ARE DUBIOUS THAT THE PRC WOULD APPROVE IT.

6. IN CONCLUSION, USLO DOES NOT WISH TO BE OVERLY PESSIMISTIC ON THIS MATTER. THE POINT IS NOT THAT THERE IS NO POTENTIAL FOR SINO-U.S. TRADE. THERE IS A GREAT DEAL OF POTENTIAL, BUT WE BELIEVE WE CAN NOW DO THE JOB OF SERVING AMERICAN BUSINESS HERE WITH OUR CURRENT STAFF, AND THAT THE INVESTMENT IN ADDITIONAL PERSONNEL OR IN

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A TRADE CENTER MIGHT BETTER BE PUT INTO CAREFULLY PLANNED EXHIBITIONS IN CHINA, OR MORE PRUDENTLY BE SPENT IN OTHER PARTS OF THE WORLD WHERE THE LOCAL CONDITIONS ARE DIFFERENT AND THE MARKETS FOR U.S. PRODUCTS BROADER.

7. A FINAL CONSIDERATION IS THAT OF THE OVERALL OFFICIAL US PRESENCE IN PEKING. I STILL FEEL WE CAN BE MOST EFFECTIVE HERE IF WE AVOID AN EXCESSIVE OR TOO RAPID EXPANSION OF THE USLO STAFF. PROVIDING SUPPORT FOR AMERICAN BUSINESS DESERVES VERY HIGH PRIORITY, BUT I BELIEVE WE CAN SUCCESSFULLY ACCOMPLISH OUR OBJECTIVES WITHIN USLO'S PRESENT OPERATIONAL FRAMEWORK.
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